



Prime Minister (2)

ms 23/12

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

21 December 1982

The Rt. Hon. Nigel Lawson, MP  
Secretary of State for Energy

*Dear Nigel*

BRITISH GAS CORPORATION BOARD PAY

Thank you for your letter of 16 December. I agree that an average increase of 9 per cent in the salaries of BGC board members is reasonable in the circumstances and that the board's remuneration committee should be asked to recommend the allocation of increases between jobs. I hope that you will press them hard not to go simply for a 9 per cent uplift for all. The more that salaries can be related to particular jobs and individuals, the more consistent will be the implementation of our present system of determining board pay on a case by case basis.

I note that you consider that the present level of board pay obstructs improvements in BGC's management. I do not think we need conclude, however, that the current system prevents you from attracting suitable outside applicants. While large general increases for existing board members are always difficult to justify publicly, it is open to us under the present board pay arrangements to offer quite high salaries to good candidates for board membership where necessary. Obviously there can be no commitment now to any further "structural" changes in salaries following Deloitte's efficiency study.

I am glad to note that you have considered the risk of any impact from these changes on the gas industry pay negotiations, and no doubt you will consider the timing aspect also from that point of view.

I am copying this letter to the Prime Minister, Patrick Jenkin, David Howell, Norman Fowler, Janet Young, Norman Tebbit, Arthur Cockfield and Tom King, and to John Sparrow and Sir Robert Armstrong.

Nat Ind. Board Pay, Pt 2<sup>nd</sup>

23 DEC 1982



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Not Ind  
JR

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SECRETARY OF STATE FOR ENERGY  
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CONFIDENTIAL  
MANAGEMENT IN CONFIDENCE

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

Prime Minister  
9% for British  
Gas Board Members  
(not 85% - 42% as sought)!

Ms 16/12

16 December 1982

Dear Chancellor,

BRITISH GAS CORPORATION BOARD PAY

I have been considering the proposals put forward by British Gas in respect of this year's determination of Board Pay. The external part-time members of the Corporation have put forward new salary ranges, based on a report commissioned from Hay Management Consultants, within which they have proposed the following specific salaries for the existing members:

	<u>Current salary</u>	<u>Proposed Initial salary</u>	<u>% increase</u>
Chairman	51,400	95,300	85
Deputy Chairman	38,800	67,300	73
Managing Directors	29,300 32,900	41,600 - 48,500	42-47

I believe they are the largest of the bids so far received. I have discussed the proposals with the external part-time members and I see considerable force in their argument that the present level of Board pay obstructs improvements in BGC's management. It also affects our ability to introduce to the Board Managers who are sympathetic to our objectives. They consider it essential to achieve movement of managerial talent at all levels between the public and private sectors. However, the present pay of Board members does not attract suitable outside applicants. Furthermore, it imposes a ceiling on the pay for senior jobs immediately below Board level, inhibiting movement there also. Below that, commercially orientated managers can see little prospect of finding within the Corporation a future in which their talents are rewarded.

British Gas is at present the subject of an efficiency study being undertaken by Deloittes. It would not be sensible to take a view on structural changes in salaries until that process was completed. But it is important that we start to move in the right direction now and respond positively to the external part-time members. They are working to turn the Corporation in the direction we desire, and will be discouraged if their recommendations are ignored. I believe they and the full-time members would accept an interim step on the basis that the structural problem would be addressed following evaluation of the efficiency study (due to report around the turn of the year). I therefore propose increasing the salaries of BGC full-time members by an average of 9% operative from 1 April this year and to invite the remuneration committee of external part-time members to recommend the allocation of increases between the different jobs.

I have discussed the effect these increases might have on the gas industry pay negotiations, and I am satisfied that it is not likely to be significant.

I am copying this letter to the Prime Minister, Patrick Jenkin, David Howell, Norman Fowler, Janet Young, Norman Tebbit, Arthur Cockfield and Tom King, and to John Sparrow and Sir Robert Armstrong.

*U. Smith*  
*J.P. Clark*

11 NIGEL LAWSON

(Approved by the Secretary of State and signed in his absence.)



16 DEC 1982

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